

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF NEW YORK

In re:

FLOUR CITY BAGELS, LLC¹,

Debtor.

Case No. 16-20213

EXHIBIT C
LIQUIDATION ANALYSIS

to

**AMENDED DISCLOSURE STATEMENT FOR AMENDED JOINT PLAN
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE DATED MAY 8, 2017
PROPOSED BY (A) UNITED CAPITAL BUSINESS LENDING, INC., N/K/A
BRIDGE FUNDING GROUP, INC., (B) BRUEGGER'S FRANCHISE
CORPORATION, BRUEGGER'S ENTERPRISES, INC., LDA MANAGEMENT
COMPANY, INC. AND LE DUFF AMERICA, INC., (C) CANAL MEZZANINE
PARTNERS II, LP, AND (D) FLOUR CITY BAGELS, LLC [DKT #910]**

¹ The last four digits of the Debtor's federal tax identification number are 9515.



Richard J. Szekelyi
Managing Director

May 9, 2017

Flour City Bagels, LLC
United Capital Business Lending, Inc.
n/k/a Bridge Funding Group, Inc.
Bruegger's Franchise Corporation
Bruegger's Enterprises, Inc.
LDA Management Company, Inc.
Le Duff America, Inc.
Canal Mezzanine Partners II, LP

RE: LIQUIDATION ANALYSIS OF FLOUR CITY BAGELS, LLC

This report is prepared at the request of the above-referenced entities (collectively referred to herein as "Plan Proponents"), all of which are proposed sponsors of a chapter 11 plan for Flour City Bagels, LLC (referred to herein as "FCB", or the "Company").

PURPOSE

The purpose of this report is to provide an analysis of the resulting recovery that may be realized by the various classes of creditors in FCB's Bankruptcy Case No. 2-16-20213 (the "Case") in the event FCB's assets are liquidated ("Liquidation Recovery"). This report updates and supplements the prior liquidation analysis dated January 24, 2017 prepared by this writer.

NATURE OF THE ANALYSIS AND LIMITATIONS

This analysis is based upon certain principle assumptions that are set forth below, my knowledge of FCB's operations and financial position and my training and professional experience. Actual results of operations through the date of liquidation ("Liquidation Date") and the actual execution of the liquidation may yield results that differ from those presented by the analysis, and those differences may be material.

Further, this report is intended to be used only by the parties to this Case, their respective counsel and the judicial tribunal.

BACKGROUND

FCB operates 28 retail stores as Bruegger's Bagels throughout the Rochester, Syracuse and Albany, New York markets under franchise agreements, and a commissary located in Rochester. The Company, headquartered in Rochester, employs approximately 325 associates. FCB filed for protection under chapter 11 of the United States Bankruptcy Code on March 2, 2016 in the United States Bankruptcy Court for the Western District of New York. Since that time, it has continued to operate its retail stores. All of the retail locations are operated under third-party property lease agreements.

At the time of the filing, FCB's operations consisted of 32 stores. Since filing, 4 stores have been closed and one lease converted to a month-to-month agreement providing FCB would vacate the property upon a 30-day notice.

FCB attempted a sale of its assets under Section 363 of the Bankruptcy Code in July 2016, which was unsuccessful. On April 26, 2017, the Plan Proponents filed a chapter 11 plan (the "Plan") and disclosure statement with the Court, and on May 8, 2017, they filed an amended Plan and disclosure statement. The Plan provides for the sale of substantially all of FCB's assets to a wholly-owned subsidiary of Bruegger's Enterprises, Inc.

It is anticipated that the proposed Plan will be confirmed on or before July 28, 2017, which will result in closure of the Case and the continued operation of all or most of the retail stores.

PRINCIPLE ASSUMPTIONS

The following are the principle assumptions upon which this analysis is based.

- Method of Liquidation – This analysis assumes the Case would be converted to a Chapter 7 Case and the liquidation of the assets carried out by a Chapter 7 Trustee.
- Continued Operations – This analysis anticipates the continued operation of the 28 stores and the Company's commissary through June 30, 2017 at which time FCB ceases operations and the Chapter 7 Trustee begins liquidation of the Company's assets.
- Date of Liquidation – The final date of liquidation used in this analysis is July 28, 2017. This date was chosen to correspond with the approximate confirmation date of the Plan.
- Results of Operations – The results of operations considered for this analysis are based upon the cash flow forecast dated May 9, 2017 (see Exhibit A). It should be noted that cash flow forecasts have been prepared and updated by this writer periodically throughout this case and are based on historic cash receipts and expenditures. This cash flow forecast also assumes that ordinary operating costs are paid in a timely manner, consistent with actual performance during the pendency of the Case, through June 30, 2017, the date FCB ceases operations.
- Specific Assumptions of Asset Values – Specific assumptions employed regarding the value of the assets to be liquidated are set forth below.

ESTIMATED BOOK VALUE OF ASSETS AT JULY 28, 2017

The following schedule presents the estimated book value of FCB's assets as of July 28, 2017, the date of liquidation.

	Actual 3/28/17	Estimate 7/28/17
Cash	384,021	-
Cash in Stores	40,856	-
Credit Card Receivable	120,000	-
Accounts Receivable	487	-
Inventory	239,231	239,231
Total Current Assets	784,595	239,231
Net Fixed assets	2,498,455	2,498,455
Due from Related Parties	11,836,471	11,836,471
Due from Affiliate	30,737	30,737
Deposits	69,358	69,358
Total Assets	15,219,616	14,674,252

ESTIMATED ASSET LIQUIDATION VALUE AT JULY 28, 2017

The following schedule presents the estimated gross liquidation values as of July 28, 2017, the final date of liquidation.

	Estimate 7/28/17	Adjustment to Book Value	Estimate Liquidation Value 7/28/17	Note
Cash	-	-	-	A
Cash in Stores	-	-	-	A
Credit Card Receivable	-	-	-	A
Accounts Receivable	-	-	-	B
Inventory	239,231	(239,231)	-	C
Total Current Assets	239,231	(239,231)	-	
Net Fixed assets	2,498,455	(2,198,455)	300,000	D
Due from Related Parties	11,836,471	(11,836,471)	-	E
Due from Affiliate	30,737	(30,737)	-	E
Deposits	69,358	(69,358)	-	F
Total Assets	14,674,252	(14,374,252)	300,000	
Leases	-	-	-	
Total Gross Liquidation Value			300,000	G

Notes:

- A. Cash – At June 30, 2017, the date FCB ceases operations, FCB's cash balance, including cash in the stores, is estimated to be \$109,308. During the next week, an estimated \$140,000 would be collected from credit cards sales made during the final week of operations, bringing the cash balance to an estimated \$249,308. As reflected on the attached cash flow forecast, this amount is insufficient to pay the total cost of certain operating obligations during the wind down period, such as the employee wages and PTO, rent payments for the month of June, insurance, and the final sales tax payment. Paying all of these obligations would result in a negative cash balance of approximately \$30,000.

- B. Accounts Receivable – Accounts receivable, which are *de minimis*, arise from catering sales and amounts due from employees to reimburse the Company for health insurance payments paid under COBRA. It is assumed are collected during the month of July.
- C. Inventory – Inventory is primarily comprised of perishable food products and to a much lesser extent restaurant supplies, much of which is branded. The estimated liquidation value of inventory is zero.
- D. Net Fixed Assets – Net fixed assets are comprised primarily of old, used restaurant equipment and furnishings. In addition, there is a portion of net fixed assets that represent commissary equipment, which is minimal, and a small amount of office furnishings and equipment. Past management did not maintain detailed fixed asset records, so specific details are not available. As mention above, 4 stores have been closed during the last year. In a few cases, the furniture and equipment has been sold to liquidators. According to management, the average amount of proceeds realized from such sales is approximately \$10,000 per store. Multiplying this amount by the 28 stores results in \$280,000 of estimated liquidation value. The commissary equipment, which includes a very old extruding machine used to manufacture bagel pucks, some basic material handling equipment and unused bakery equipment is assumed to have a liquidation value of \$20,000. One commissary asset is a 2004 Raymond Electric Forklift on which Lakeland Bank has a first lien security interest. The balance due Lakeland Bank on the loan is approximately \$9,000. A review of similar forklifts on eBay indicates market values of \$2,500 to \$7,500, less than the outstanding Lakeland Bank debt. The office furniture and equipment, which are also very aged, is assumed to have little to no value.

Note: A formal fixed asset appraisal was not available, nor ordered for the purpose of this analysis. A formal appraisal was not ordered due to the fact that a value of the fixed assets that is 10 times the \$300,000 estimate, or \$3 million, would not result in recovery by any creditor other than those addressed below.

- E. Due from Related Parties and Affiliates – These assets were assigned no value for the purpose of this analysis. Past management failed to maintain detailed subsidiary records for these assets. In addition, during the course of our engagement, we found numerous entries charged to asset accounts that masked the fact that the transactions were actually expenses and/or owner withdrawals, not assets. Lastly, the principal owner of FCB has filed for personal bankruptcy, making any meaningful recovery improbable.
- F. Deposits – This asset represents deposits held by suppliers who provide continuing products or services to the Company. In the event of FCB's liquidation, these deposits would be retained by the supplier as payment of any outstanding invoices, the amounts of which likely exceed the amount of the deposit.

G. Leases – As mentioned above, all of FCB’s facilities are operated under third-party property leases. To the extent these leases are below market value, they may represent value to the estate. Neither United nor Canal filed liens on these leases. The New York State Department of Taxation and Finance (“NYS Tax Department”), through its tax lien filed against FCB in Monroe County for unpaid sale taxes, has a lien upon only those leases located within Monroe County. While evidence was submitted to the Court regarding the value of the leases, the Court did not accept the report into evidence. The value of the Monroe County leases is unclear, and therefore, for the purpose of this analysis, have been estimated to yield no liquidation value.

CLAIMS

The following schedule summarizes the existing claims against the estate’s assets.

Creditor	Priority	\$ Claim	Notes
Employee Unpaid Compensation	Administrative	80,000	Reflects 4 days wages due at June 30, 2017
Employee Unpaid PTO	Administrative	20,000	Estimated PTO
Flower City Produce	PACA	34,569	Primes First Secured Lien
United Capital Business Lending, Inc.	First Secured Lien	5,256,147	Security interest in all assets with the exception of leases
Lakeland Bank	First Secured Lien	8,900	Security interest in on a forklift
Canal Mezzanine Partners II, LP	Second Secured Lien	4,502,229	Security interest in all assets with the exception of leases
New York State Department of Taxation	Priority Secured	1,219,912	Security interest filed in Monroe County
Administrative Claims			
Professional Fees	Administrative	650,000	Estimated unpaid fees as of June 30, 2017
503(b)(9) Claims	Administrative	189,489	
Lease Cure Claims	Administrative	233,169	
Deferred Royalties due BEI	Administrative	680,000	Estimated amount due as of June 30, 2017
Post-petition Accounts Payables	Administrative	250,000	Estimated outstanding AP as of June 30, 2017
Unsecured:			
Bruegger's Enterprises, Inc.	Pre-petition Unsecured	684,142	To be waived as part of the Bruegger's/United Plan
LDA America Company, Inc.	Pre-petition Unsecured	73,130	To be waived as part of the Bruegger's/United Plan
MRM Wealth Management	Pre-petition Unsecured	396,983	To be waived as part of the Canal/ MRM Plan
Other Pre-petition Claims	Pre-petition Unsecured	2,063,693	
Total Claims		<u><u>16,342,363</u></u>	

CREDITOR RECOVERY

Given the estimated gross liquidation value of FCB’s assets of \$300,000, after partial payments made during the wind down period for final wages and PTO to employees, rent, and the final payment of current sales tax collected to the NYS Tax Department, the only creditors that would benefit from a liquidation of FCB’s assets are (i) PACA claimant Flower City Produce, Inc.; (ii) Lakeland Bank; (iii) the NYS Tax Department; and (iv) United. Flower City Produce, Inc. would receive cash in the amount of its claim of \$34,569. The NYS Tax Department could realize a recovery, if any, from the value of the leases located in Monroe County. Lakeland Bank could recover the forklift. United would receive the remaining cash generated through the liquidation, which is estimated to total \$265,431.

Estimated Cash Generated	300,000
Flower City Product - PACA Vendor	(34,569)
Potential Recovery to United (1)	265,431
United Claim	5,256,147
United Deficiency after Recovery	(4,990,716)

(1) - This potential recovery to United may be subject to carve-outs for professional expenses and for any deferred Bruegger's royalties pursuant to the applicable orders entered by this Court. The parties reserve all rights with respect to the proper application and allocation of any carve-outs from the lender's collateral in the event of a Chapter 7 liquidation or dismissal of these cases.

CONCLUSION

This analysis indicates that there would be insufficient funds to pay all operating obligations such as final wages and PTO due employees, rent, and the final payment of current sales tax collected to the NYS Tax Department, as well as amounts due the Chapter 7 Trustee and U.S. Trustee. Only 4 creditors would realize any recovery from the liquidation of FCB's assets. United, FCB's senior lender, would recover approximately \$265,000, or 5% of its outstanding claim of more than \$5.2 million. Holders of administrative claims and pre-petition unsecured claims would realize no recovery under a liquidation of FCB's assets.



Richard J. Szekelyi
Managing Director

Exhibit A

Flour City Bagel, LLC Cash Flow Forecast

	Wk 61	Wk 62	Wk 63	Wk 64	Wk 65	Wk 66	Wk 67	Wk 68
Week Ending	5/5/17	5/12/17	5/19/17	5/26/17	6/2/17	6/9/17	6/16/17	6/23/17
Projected Gross Revenue	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Cash Inflows								
Weekly Cash Collections	339,500	339,500	339,500	339,500	339,500	339,500	339,500	339,500
Weekly Cash Collections Sale Taxes	27,160	27,160	27,160	27,160	27,160	27,160	27,160	27,160
Other Cash Inflows								
Total Inflows	366,660	366,660	366,660	366,660	366,660	366,660	366,660	366,660
Operating Disbursements								
Flour City Payroll & Taxes	140,000	140,000	140,000	140,000	140,000	140,000	140,000	140,000
401k - Employee Withholding	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Health Insurance	23,000				23,000			
US Foods	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
Franklin	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Flower City Produce	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Johnson Papers	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Decresdente - Juice	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Royal Coffee	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Wright Beverage	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
ADM	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Twin Bakery	4,500	-	4,500	-	4,500		4,500	
COGS (Food/Bev/Other)	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Repairs and Maintenance	16,500	16,500	16,500	16,500	16,500	16,500	16,500	16,500
Gift Card Fees								
Credit Card Fees		27,000	1,650				27,000	1,650
Corporate Insurance	9,200				9,200			
Workers Comp		18,000					18,000	
Equipment Leases	282				282			
Auto/Truck Expense	1,200	1,200	1,200	1,200	1,200			
Truck Rental	10,500				10,500			
Professional Fees								
Employment Agency Fees								
Rents (Including CAM)	188,000				188,000			
Security - Doyle	250	250	250	250	250	250	250	250
Disposal		2,000		1,000			2,000	
Royalty Fee (BEI)	7,763	7,875	7,875	7,875	7,875	7,875	7,875	7,875
BEI - Other	3,995				3,995			
Sales Taxes				90,000				90,000
Supplies								
T&E & Petty Cash	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Telephone	7,500	1,000	500		7,500	1,000	500	
Cell Phones								
Utilities	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Bank Fees	8,500				8,500			
Miscellaneous	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Total Operating Disbursements	553,090	345,725	304,375	388,725	553,202	297,525	348,525	388,175
Operating Cash Generated / (Used) in Operations	(186,430)	20,935	62,285	(22,065)	(186,542)	69,135	18,135	(21,515)
Cumulative Cash Generated / (Used) in Operations	8,415	29,350	91,635	69,570	(116,973)	(47,838)	(29,703)	(51,218)
Non-Operating Disbursements								
Fees & Interest Payments								
Professional Fees - Restructuring			-					
Rent Arreage Settlements								
Chapter 7 Trustee								
US Trustee Fee								
Retainers								
Utility Deposits								
Other								
Total Non-Operating Disbursements	-	-	-	-	-	-	-	-
Cash Generated / (Used)	(186,430)	20,935	62,285	(22,065)	(186,542)	69,135	18,135	(21,515)
Cumulative Cash Generated / (Used)	(73,297)	(52,362)	9,924	(12,142)	(198,684)	(129,549)	(111,414)	(132,929)
Cash Balance - Book								
Beginning Cash Balance	400,734	214,305	235,240	297,525	275,460	88,918	158,053	176,188
Cash (Used)/Generated.....	(186,430)	20,935	62,285	(22,065)	(186,542)	69,135	18,135	(21,515)
Loan Borrowings/(Repayments).....								
Ending Cash Balance	214,305	235,240	297,525	275,460	88,918	158,053	176,188	154,673

Flour City Bagel, LLC
Cash Flow Forecast

	Wk 69	Wk 70	Wk 71	Wk 72	Wk 73	
Week Ending	6/30/17	7/7/17	7/14/17	7/21/17	7/28/17	Total
Projected Gross Revenue	350,000					6,921,962
Cash Inflows						
Weekly Cash Collections	339,500	140,000	-	-	-	7,184,997
Weekly Cash Collections Sale Taxes	27,160		-	-	-	244,440
Other Cash Inflows						-
Total Inflows	366,660	140,000	-	-	-	7,429,437
Operating Disbursements						
Flour City Payroll & Taxes	250,000					2,816,858
401k - Employee Withholding	1,500	1,500				30,742
Health Insurance						93,009
US Foods	45,000					849,267
Franklin	14,000					242,738
Flower City Produce	4,500					80,455
Johnson Papers	8,000					145,525
Decresdente - Juice	1,800					34,914
Royal Coffee	6,500					120,689
Wright Beverage	1,400					25,380
ADM	12,000					180,838
Twin Bakery	4,500					36,214
COGS (Food/Bev/Other)	14,000					246,522
Repairs and Maintenance	16,500					303,593
Gift Card Fees						1,397
Credit Card Fees						104,884
Corporate Insurance		9,200				52,932
Workers Comp						85,573
Equipment Leases						1,693
Auto/Truck Expense						20,298
Truck Rental						54,363
Professional Fees						50
Employment Agency Fees						-
Rents (Including CAM)		180,000				932,463
Security - Doyle	250					8,403
Disposal	1,000					22,143
Royalty Fee (BEI)	7,875					148,455
BEI - Other						22,328
Sales Taxes				90,000		512,826
Supplies						-
T&E & Petty Cash	5,200					98,327
Telephone						34,620
Cell Phones						-
Utilities	12,500					225,390
Bank Fees						32,558
Miscellaneous	5,500					101,273
Total Operating Disbursements	412,025	190,700	-	90,000	-	7,666,720
Operating Cash Generated / (Used) in Operations	(45,365)	(50,700)	-	(90,000)	-	(237,283)
Cumulative Cash Generated / (Used) in Operations	(96,583)	(147,283)	(147,283)	(237,283)	(237,283)	
Non-Operating Disbursements						
Fees & Interest Payments						-
Professional Fees - Restructuring						68,711
Rent Arreage Settlements						13,000
Chapter 7 Trustee					36,000	36,000
US Trustee Fee					13,000	13,000
Retainers						-
Utility Deposits						-
Other						-
Total Non-Operating Disbursements	-	-	-	-	49,000	130,711
Cash Generated / (Used)	(45,365)	(50,700)	-	(90,000)	(49,000)	(367,994)
Cumulative Cash Generated / (Used)	(178,294)	(228,994)	(228,994)	(318,994)	(367,994)	
Cash Balance - Book						
Beginning Cash Balance	154,673	109,308	58,608	58,608	(31,393)	287,601
Cash (Used)/Generated.....	(45,365)	(50,700)	-	(90,000)	(49,000)	(367,994)
Loan Borrowings/(Repayments).....						
Ending Cash Balance	109,308	58,608	58,608	(31,393)	(80,393)	(80,393)